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Iran: An Overview of the Shah's Economy

Iran possesses the world's fastest growing economy, having led all other nations in sustained real growth for more than a decade. Moreover, the recent surge in oil revenues has contributed to an acceleration in the rate of growth. The economy grew by 33% in 1973 and is expected to grow another 40% in 1974. Iran's GNP of about $40 billion is more than four times those of its nearest Middle East rivals, Egypt and Israel. Development spending is being expanded from an originally planned $23 billion to $45 billion during the Fifth Plan (1973-77). The goal is to develop an industrial base that could rival some West European countries in the not too distant future. Gas reserves, perhaps the largest in the world, are being tapped, a major steel industry is in the works, new refineries and petrochemical plants are being built, rich copper reserves are being mined, and nuclear power plants are on order. Throughout the rest of this decade, the Shah can count on oil revenues of some $20 billion annually -- barring any sharp price reversal -- to finance these plans. The smell of success also is attracting foreign investors who are bringing in much needed technology and equipment while adhering to Tehran's condition of majority domestic ownership of joint ventures.

An Emerging World Banker

Oil revenues will continue to exceed the economy's absorptive capacity over the next few years. To keep Iran's surplus funds working, the Shah has begun to lend money abroad and to invest in foreign enterprises. In 1974, he committed more than $8 billion for such undertakings. The Shah has provided billion dollar advances to France and the UK; has bought into West Germany's Krupp steel enterprise; has extended aid credits to India; and has provided loans to Egypt, Syria, and a number of small African nations. Most of Iran's commitments will return badly needed commodities, provide outlets for non-oil exports, and, in some cases, help shore up markets and prices for Iranian oil.

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Military Ambitions

The Shah also is spending large sums for arms to achieve dominance in the Persian Gulf and develop influence in the Indian Ocean area. About $8 billion has been spent for armaments in 1967-73, the largest in the Middle East. Contracts have been signed for billions more, including $600 million for US F-14 fighters armed with Phoenix air-to-air missiles. Purchases of modern weapons also have been made in France, Italy, the United Kingdom, and West Germany. Several West European countries are competing with the United States to build modern arms plants in Iran. The Soviet Union, currently Iran's third largest arms supplier, is relegated to providing non-sophisticated ground forces equipment.

Some Problem Areas

The Shah's ambitious development program and arms build up are creating domestic economic problems. The large outlays (as well as enormous capital inflow) have caused prices to rise sharply. Compared with an increase of 6% in 1972 and 11% in 1973, prices during the first quarter of this year were at an annual rate of 16%. Rapidly growing and competing demands for skilled labor from industry and the armed forces have run up against a labor pool short of skills even before these expanded requirements. Meanwhile, urban unemployment is increasing as sizable numbers of unskilled rural laborers move into the cities looking for jobs. Despite large government spending, income distribution is as inequitable as it always has been. The top 20% probably still receive over half of total income while the lowest 20% get about 5%.

Opportunities for US Business

US companies are in an excellent position to expand their already large investment in and sales to Iran. The Shah is looking to the United States for much of the equipment and expertise to develop Iran's industries, particularly petrochemicals. During the current Plan, Tehran plans to invest $6 billion in industrial expansion, as well as $5 billion in oil and gas development. US firms probably will be asked to design, provide, and install machinery and equipment and help Iran market some of its industrial output. Iranian imports of goods and services, including arms, are expected to swell to about $10 billion annually by 1975, resulting in US sales of at least $1.6 billion. To retain its share of the market, however, the US will have to counter increasing Japanese and West European competition.

CIA/OER
16 October 1974

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MEMORANDUM FOR: [redacted]

Attached, as requested, is OER's economic analysis of Iran for use in the Secretary of State's briefing book.

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Economic Research

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